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RAILROAD ENTERPRISE BALANCE SHEET EXPLAINED

The balance sheet is a document which characterizes the financial condition of an enterprise. It shows, in monetary terms, the resources of the enterprise according to both composition and sources of formation. The balance sheet consists therefore of two parts, the assets, where the distribution of the enterprise's resources, is shown, and the liabilities, where the sources of the formation of the resources are shown.

The method of grouping the items on the assets side and on the liabilities side is extremely important. As is known, each enterprise, in order to execute the work assigned to it, should have at its disposal fixed assets (buildings, machines, equipment, etc.) and working capital (materials, fuel tools, special clothing, etc.). These resources are withdrawn from the general state fund and assigned to the railroad systems and trusts for a long period by putting them into the regulation fund of the enterprise. On the balance sheets of the economic units of the railroad systems these funds are reflected in the item called the enterprise's own funds. The mobility of these funds varies. For instance, a locomotive costing 500,000 rubles works mary years, and fuel costing the same amount is expended on a railroad system in 2 or 3 days. In accordance with this, the process of financing fixed assets and working capital varies.

Financing the growth of fixed assets (contruction of new projects, procurement of machines, machine tools, and new rolling stock, etc.) is done by the Industrial Bank and is accounted for separately from the operational activity in the capital investment balance sheet.

When an enterprise accepts new fixed assets items into service, it notes in its operational balance an increase in its fixed assets on the one hand (on the assests side), and, on the other, an increase in the regulation fund in its basic parts (on the liabilities side).

Increasing working capital (increasing the supplies of fuel, materials, spare parts, and other material values) is financed through the State Bank and is accounted for directly in the balance sheet for operational activity.

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The sums received are also entered as the enterprise's own funds for increasing the regulation fund, but in the working capital section. These examples show how important it is to place the items of the balance sheet in such an order that the sources on the left side of the sheet (assets) correspond to the various groups of funds on the right or liabilities side.

The form of balance sheet approved by the Ministry of Finance USSR for transport enterprises for 1950 calls for the following system of distribution of the groups of assets and liabilities:

Assets

- A. Fixed assets and diverted funds
- A. Regulation fund and fixed liabilities

B. Financial returns

B. Financial returns; working capital

C. Normalized funds

- C. Enterprise's own working capital and funds given the same status; short-term credits for normalized reserves
- D. Working capital on account
- D. Working capital on account
- E. Funds in accounts and other assets
- E. Accounts and other liabilities

Including:

Including:

1. Cash

- Funds, specific-purpose finnancing, etc.
- 2. Funds covered by bank credits
- 2. Short-term State Bank credits
- 3. Accounts receivable
- 3. Accounts payable
- F. Funds for capital repair
- F. Depreciation

Balance

Balance

Group A -- The sources of the enterprise's own funds and the funds given the same status as the enterprise's own funds are shown in the liabilities column. The fixed and working capital funds are the sources of the enterprise's own funds, and this in sum corresponds to the regulation fund. The regulation fund is replenished according to the yearly plans for the operation and development of the enterprise.

The sources given the same status as the enterprise's own funds, or as it is convenient also to call them, the fixed assets, include several categories of borrowed funds kept at the disposal of the enterprise for a definite period of time according to legislation in force. This item includes fundamentally the mormal wages due but unpaid to workers and employees amounting to 2.5 days' worth, and also the normal debts to suppliers, the accounts of which are payable in 3 days for fuel, in 3-4 days for the materials of local suppliers, and in 10 days for materials supplied by suppliers outside the city.

On the assets side, Group A shows the fixed assets (buildings, track, structures, rolling stock, equipment, implements, etc.), and also the fixed and working capital which is diverted to construction organizations. All

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these funds have as their normal source the regulation fund. The difference between the totals of the liabilities and assets of Group A, taking into account the undivided profits temporarily accumulated in turnover or unplanned losses sustained, is distinguished in the balance sheet in the form of a separate item of the free part of the enterprise's own funds and the funds given the same status as the enterprise's own funds.

Group B -- The returns received from all types of activity are reflected in the liabilities of this group. The returns established according to the plan are held during the monthly accountings on income. The sum held is shown on the assets side as undivided profits. Consequently, if a profit shown on the liabilities side exceeds the undivided profit (on the assets side), it means that the enterprise has at its disposal additional funds resulting from exceeding the plan for profits. These additional funds are taken into account when the size of the enterprise's own funds in turnover is determined. If the sum of the profits on the liabilities side is less than the sum of the undivided profits on the assets side, it means that the enterprise, in failing to complete the assignment for profits, has wasted a part of its own funds and is experiencing financial difficulties as a result.

Group C -- The sources of the formation of the enterprise's own working capital and the funds given the same status, and also the short-term credits of the State Bank received for the seasonal accumulation of a terials, are shown on the liabilities side. The credits are furnished by the State Bank for the procurement of above-normal supplies of special clothing, fuel, lubricants, ice, etc. The whole of the rest of Group C is used to assure normal supplies of trade and material values (in other words, normalized funds --working capital for which norms are set), which are shown on the assets side. A comparison of the distribution of funds (assets) and their sources (liabilities) for a given group shows an insufficiency of the sources of covering (when the liabilities exceed the assets) or an excess in the sources of covering (when the assets exceed the liabilities). Most often the assets exceed the liabilities is not effecting the acceleration of working capital called for by the plan and is permitting the accumulation of stocks and the immobilizing of state funds.

Group D -- This group shows working capital. As is known, direct-haul carrying is done over several railroad systems. The carrying charges to the client for this carrying arrive in the form of station receipts at the centralized income distributing, account of the Ministry of Transportation in the State Bank until the accounts are settled with the systems in regard to the systems' incomes. These accounts are shown on the assets side as an indebtedness of the okrug toward the system for the income to the system from carrying in direct haul. Since these accounts are not included in the enterprise's own working capital, the so-called working capital on accounts shown omthe, liabilities side of this group is assigned to the railroad systems to cover them. They are assigned in order to assure the payment of wages and payments for fuel and materials, and to cover other operational expenses until the systems receive their income from carrying.

Group E -- This group consists of three sections. In the first section are represented the free remainder of the unexpended director's fund and of other types of specific-purpose financing secured by monetary funds in the accounts in the State Bank. The short-term credits of the State Bank are shown in the second section. In conformance with existing legislation, the bank issues loans for the account of shipped production and work executed for the normal term required for the receipt of the money due according to the accounts. The sum of the accounts presented to clients are placed on the assets side of this item. An excess of assest over liabilities indicates a completely insufficient utilization of bank credit, resulting in an illegal drain on the enterprise's own working capital. In the third section accounts receivable are shown on the assets side and accounts payable are shown on the liabilities side. With the exception of several items in this section, the majority indicates a weak accounting discipline. It is

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necessary to emphasize that the growth of credit indebtedness is the first symptom of the sickening of an enterprise. As a rule, this is the result of unprofitable operations, accumulation of production, credit indebtedness, and the diversion of funds for basic operations to illegal capital investment.

Group F -- This group reflects funds for capital repair. The sources of the financing of capital repair are shown in the liabilities, chiefly the depreciation reserves. The assests side shows the use of these funds.

In regard to such items as financial returns, calculations on profits accounts, production accounts, and others which characterize the condition of cost accounting, for them the balance sheet of the railroad system differs qualitatively from the balance sheets of the enterprises because the basic economic unit of railroad transport is the railroad system.

As is known, the production of railroad transport is the carrying of passengers, freight, and baggage. All types of enterprises -- stations, locomotive and railroad car depots, track sections and communications sections, etc. -- participate in the process. A client entering into dealings with a railroad system makes all payments to the station, which thus fulfills the function of sales department for the complex product of transport.

Revenues for completed carrying are received only by the railroad system administration. The separate enterprises do not receive—share of this revenue from the railroad system administration: they are paid for the volume of work actually completed according to planned accounting rates of pay.

For the railroad system as a whole, the indexes for measuring production are: one ton-kilometer for freight, and one passenger-kilometer for passengers. For a locomotive depot, locmotive distance traveled in front of a train of empty cars constitutes just as useful work as that effected in front of a train of loaded cars: in both cases, regardless of the revenues received by the railroad system, it is necessary to pay the locomotive crews and for fuel, etc. Therefore, the indexes for production of locomotive depots are: 1,000 locomotive-kilometer at the head of trains separately for passenger and freight traffic; 1,000 locomotive-kilometers of auxiliary run (helper and pusher service, light runs, waiting in reserve) for each type of traffic; 1,000 locomotive-hours in nonrevenue traffic; and 1,000 locomotive-hours in shunting and other operations.

These :counting rates of pay are established on the basis of calculations which in their turn are based on the industrial and financial plan. Proceding from here, the revenue of the depot is planned equal to the sum of its expenditures. If the depot operates well and exceeds the assigned qualitative and quantitative indexes, it receives a saving by reducing the circut and overhead expenditures per unit of production.

Savings remain during the whole quarter at the disposal of the depot, which in conformance with law has the right to form the director's fund with 30 percent of the year's savings and an advance of 15 percent of the quarter savings. Seventy-five percent of the savings goes to the administration of the railroad system for transfer to the okrug when the quarterly computations of profits are made.

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For its month's operations, the depot receives from the system administration an advance on the second day of the following month and the remainder on the 15th day. Therefore, in order for the depot to be able to operate normally during the course of the month, it receives calculated working capital in the following amounts; an amount sufficient for 15 days to cover expenditures for wages with adjustments, and an amount sufficient for 26 days to cover payments for materials, leaves of absences, and other expenses.

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